

Credit: Credit, Debit, & Cash

03/11/16

What's in your wallet?

You're buying concert tickets online.

What in your wallet will you use to pay for them?

IWBAT






- Differentiate between debit and credit cards and cash.
- Study the advantages and disadvantages of using credit.
- Learn basic credit card terminology.






Via

- Capturing notes on my graphic organizer/note frame
- Whole class discussions to introduce and clarify key concepts
- Completing practice problems collaboratively with teacher support

Credit: Credit, Debit, & Cash

What do we know already?

	Debit card	
	Cash card	
	Check card	
	Credit card	
	Cash	

	A card not connected to a bank account but preloaded with some amount of money that can be used to purchase items
	Another name for a debit card
	A card used to purchase goods and services for which payment is drawn directly from an existing bank account
	Readily available money in the form of paper bills and coins
	A card that allows a person to purchase goods and services by paying with money borrowed from a bank

Credit: Credit, Debit, & Cash
Paper or Plastic?

Credit	Debit	Cash

Credit: Credit, Debit, & Cash

interest - additional money you owe for borrowing the money (principal)

APR - Annual Percentage Rate - this is the rate of interest

minimum monthly payment - Smallest payment you can make on your debt: \$10 or 2% of balance whichever is greater

billing cycle - how long between bills
usu. 15TH to 14TH of each month

grace period - How long you have to pay off your balance until interest is applied

finance charge - Fee charged on unpaid balance (interest)

IWBAT understand how credit cards work and learn the language of credit, compute the APR and effective rate of a given credit card and understand how minimum payments are calculated.

Credit: Credit, Debit, & Cash

According to the federal **Truth in Lending Act**, a bank is required to notify you of all charges associated with the credit card before you sign up.

Below is an example image of a Schumer box.

IMPORTANT CREDIT DISCLOSURES	
ANNUAL PERCENTAGE RATE (APR)	12.9%
Other APRs	Late Payment APR 24.9%† (see explanation below)
Minimum FINANCE CHARGE	\$1.00
Method of Computing the Balance	Average Daily Balance (Including New Purchases)
Grace Period for Repayment of the Balance	Not less than 25 days
Annual Fee	None
A Late Payment Fee of \$15.00 for balances less than \$50.00; \$25.00 for balances of \$50.00 but less than \$100.00; \$29.00 for balances of \$100.00 but less than \$1,000.00; and \$35.00 for balances \$1,000.00 and above per Account Type. You need not accept the credit card or pay any fee unless you use the card or have already used the Account. To find out about changes in the information in the table above, write us at P.O. Box 51, Mason, Oregon 40450.	

†If at any time you fail to pay the Minimum Payment Due by the Payment Due Date for two consecutive billing cycles or twice in any six month period, the APR will increase to 24.9%.

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Credit: Credit, Debit, & Cash

Vocabulary: Appendix A.3 Key Terms

Quiz 5.1.2

IWBAT understand how credit cards work and learn the language of credit, compute the APR and effective rate of a given credit card and understand how minimum payments are calculated.

Credit: Calculating Credit Card Interest

03/14/16

Explain these terms in your own words.

interest - a percentage of money you borrowed
added to what you already owe

APR -

minimum monthly payment -

finance charge -

IWBAT

- Define credit and interest
- Learn how credit card companies compute interest.
- Calculate finance charges using different interest rates
- Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

Via

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Credit: Calculating Credit Card Interest

Billing cycle - a month-long period during which interest is calculated and then billed

$$\text{periodic interest rate} = \frac{\text{APR}}{365} * \# \text{ of days in billing cycle}$$

grace period -

Revolving credit - *use it, pay it off, use it again*

IWBAT understand how credit cards work and learn the language of credit, compute the APR and effective rate of a given credit card and understand how minimum payments are calculated.

Credit: Calculating Credit Card Interest

Compound interest

$$fV = P\left(1 + \frac{r}{n}\right)^t$$

$$n = \begin{cases} \text{daily} = 365 \\ \text{monthly} = \frac{365}{30} \approx 12.167 \end{cases}$$

$$r = \frac{\text{APR}}{100}$$

t = number of compounding periods

Effective interest rate [I(eff) or APY]

$$\text{APY} = \left(1 + \frac{r}{n}\right)^n - 1$$

IWBAT understand how credit cards work and learn the language of credit, compute the APR and effective rate of a given credit card and understand how minimum payments are calculated.

Credit: Calculating Credit Card Interest

Effective interest rate: *APY*

$$\left(1 + \frac{r}{n}\right)^n - 1$$

$$\left(1 + \frac{.129}{365}\right)^{365} - 1$$

.1377

Periodic interest rate:

$$\left(\frac{r}{365}\right) \times \text{\#days in billing cycle}$$

IMPORTANT CREDIT DISCLOSURES

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[†]If at any time you fail to pay the Minimum Payment Due by the Payment Due Date for two consecutive billing cycles or twice in any six month period, the APR will increase to 24.9%.

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

average daily balance method

The average daily balance is calculated by adding each day's balance and dividing that total by the number of days in the billing cycle. This is multiplied by the periodic interest rate.

previous balance method

Interest is calculated based on the outstanding balance at the end of the previous billing period. *New charges* in the current billing period are *not* part of the interest calculation. This is multiplied by the periodic interest rate.

adjusted balance method

Interest is added based on the account balance remaining after applying all payments and credits during the billing period. *New charges* in the current billing period are *not* part of the interest calculation. This is multiplied by the periodic interest rate.

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

One example:

	Average daily balance	Adjusted balance	Previous balance
Monthly	1.5%	1.5%	1.5%
Rates	18%	18%	18%
Previous balance	\$400	\$400	\$400
Payments	\$300	\$300	\$300
On 15th day (new balance = \$100)			
Average daily balance	\$250*	N/A	N/A
Finance charge	\$3.75 (1.5% • \$250)	\$1.50 (1.5% • \$100)	\$6.00 (1.5% • \$400)
* To figure average daily balance: (\$400 × 15 days) + (\$100 × 15 days) = \$250 × 30 days			

If you pay off your balance every month, only the ADB method will result in a finance charge. This is one reason why it is the most commonly used method by credit card companies.

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

Fair Credit Billing Act

- Unauthorized purchases, charges for unreceived items, or payments not credited to your account must be challenged within 60 days of receiving your bill.
- Credit card companies must investigate and either correct the mistake or explain why there was no error within two billing cycles.
- The disputed amount cannot be billed and you are not required to make a payment on it.
- If the disputed amount is not an error, it will become due as a normal charge.
- Your credit history *will* be protected during the dispute process.
- Creditors must provide a statement of customer rights when the account is opened and at least twice every year thereafter.

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

Other laws which protect you as a consumer:

- Prompt crediting of payments: Payments must be credited to your account the day of receipt by the creditor.
- Refunds of credit balances: Credit balances must be refunded within seven days after the creditor receives a written request.
- Unauthorized charges: You are not responsible for charges made within two days after a card is reported lost. If you report the credit card loss more than two days later, you are liable for no more than \$50.
- Disputes: You can withhold payment for credit card purchases of problematic merchandise or services if you have made good faith efforts to resolve the issue with the seller.

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

The opening balance of one of Herb's 30-day billing cycles for his credit card was \$1220, and it remained that amount for the first 10 days of his billing cycle. He then made a purchase for \$470, so his balance jumped to \$1690, and it remained that amount for the next 10 days. Herb then made a payment of \$350, so his balance for the last 10 days of the billing cycle was \$1340. The APR of Herb's credit card is 33%.

1. What was Herb's average balance for the month?

$$\begin{array}{r} \$1220 \times 10 \\ 1690 \times 10 \\ + 1340 \times 10 \\ \hline 42,500 \end{array} \div 30$$

2. What is his periodic interest rate?

$$\frac{.33}{365} \times 30$$
$$\boxed{.0271}$$

3. If Herb's credit card uses the average daily balance method, how much was Herb charged in interest for the billing cycle?

$$\$38.39$$

4. If Herb's credit card uses the previous balance method, how much was Herb charged in interest for the billing cycle?

$$\begin{array}{r} \$1220 \\ \times .0271 \\ \hline \$33.06 \end{array}$$

5. If Herb's credit card uses the adjusted balance method, how much was Herb charged in interest for the billing cycle?

$$\begin{array}{r} \$1220 \\ - 350 \\ \hline \$870 \end{array} \times .0271 = \$23.58$$

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Credit: Calculating Credit Card Interest

<https://www.consumer.ftc.gov/>

Vocabulary: Appendix A.3 Key Terms

Quiz 5.2.2

IWBAT explore the average daily balance, previous balance, and adjusted balance methods and compare the various methods credit card companies use to calculate interest.

Explain the differences between average daily balance, previous balance, and adjusted balance methods of calculating credit card interest.

$$\text{ADB is calc } \frac{\sum \text{daily balances}}{\# \text{ of days}} \times \text{PIR}$$

$$\text{PB } \text{Outstanding balance (no new charges)} \times \text{PIR}$$

$$\text{Adj B } (\text{Outstanding balance} - \text{payments} + \text{Credits}) \times \text{PIR}$$

IWBAT

- Examine the costs and benefits of various methods of payment.
- Analyze the relationship among the finance charges, the principal of the loan, and the loan repayment period.
- Calculate how much you will end up paying if you only make minimum payments.
- Calculate unpaid balances after series of payments, finance charges, and new purchases.

Via

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Credit: Tracking Payments & Purchases

Calculate how much you will end up paying if you only make minimum payments.

You made a New Year's resolution to get in shape so you purchase a tread climber on sale for \$1200.

You put it on your credit card. How long will it take for you to pay it off using the minimum payment of \$10 or 2% of the balance, whichever is higher?

$$\begin{array}{l} \$1200(.02) = \$24 \\ \$10 = \$500 \\ \frac{\$10}{.02} = \$500 \\ \$1200 - 500 = \$700 \\ \frac{\$700}{\$24/mo} = 29.2mo \\ 30 pmt \end{array}$$
$$\begin{array}{l} 30 pmt @ \$24 = \$720 \\ \$1200 - 720 = \$480 \\ \frac{\$480}{\$10/mo} = 48 pmt \\ 30 + 48 = 78mo \end{array}$$

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

How long will it take if you pay \$24/mo?

$$\frac{\$1200}{\$24} = 50 \text{ pmt}$$

Your card has an APR of 12%. How long will it now take you to pay off the purchase?

117 mo

<http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx>

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

It will take you 66 months to be rid of your debt. In that time, you will pay \$443.00 in interest.

If you paid the minimum payment every month, it would take you 117 months, to pay off your debt and you would pay \$744.97.

Month	Fixed Payment	Interest Paid	Principal Paid	Remaining Balance
1	\$25.00	\$12.00	\$13.00	\$1187.00
2	\$25.00	\$11.87	\$13.13	\$1173.87
3	\$25.00	\$11.74	\$13.26	\$1160.61
4	\$25.00	\$11.61	\$13.39	\$1147.21
5	\$25.00	\$11.47	\$13.53	\$1133.69
6	\$25.00	\$11.34	\$13.66	\$1120.02
7	\$25.00	\$11.20	\$13.80	\$1106.22
8	\$25.00	\$11.06	\$13.94	\$1092.29
9	\$25.00	\$10.92	\$14.08	\$1078.21
10	\$25.00	\$10.78	\$14.22	\$1063.99
11	\$25.00	\$10.64	\$14.36	\$1049.63
12	\$25.00	\$10.50	\$14.50	\$1035.13
13	\$25.00	\$10.35	\$14.65	\$1020.48
14	\$25.00	\$10.20	\$14.80	\$1005.68
15	\$25.00	\$10.06	\$14.94	\$990.74
16	\$25.00	\$9.91	\$15.09	\$975.65
17	\$25.00	\$9.76	\$15.24	\$960.40
18	\$25.00	\$9.60	\$15.40	\$945.01
19	\$25.00	\$9.45	\$15.55	\$929.46
20	\$25.00	\$9.29	\$15.71	\$913.75
21	\$25.00	\$9.14	\$15.86	\$897.89
22	\$25.00	\$8.98	\$16.02	\$881.87
23	\$25.00	\$8.82	\$16.18	\$865.69
24	\$25.00	\$8.66	\$16.34	\$849.34

25	\$25.00	\$8.49	\$16.51	\$832.84
26	\$25.00	\$8.33	\$16.67	\$816.17
27	\$25.00	\$8.16	\$16.84	\$799.33
28	\$25.00	\$7.99	\$17.01	\$782.32
29	\$25.00	\$7.82	\$17.18	\$765.14
30	\$25.00	\$7.65	\$17.35	\$747.80
31	\$25.00	\$7.48	\$17.52	\$730.27
32	\$25.00	\$7.30	\$17.70	\$712.58
33	\$25.00	\$7.13	\$17.87	\$694.70
34	\$25.00	\$6.95	\$18.05	\$676.65
35	\$25.00	\$6.77	\$18.23	\$658.42
36	\$25.00	\$6.58	\$18.42	\$640.00
37	\$25.00	\$6.40	\$18.60	\$621.40
38	\$25.00	\$6.21	\$18.79	\$602.61
39	\$25.00	\$6.03	\$18.97	\$583.64
40	\$25.00	\$5.84	\$19.16	\$564.48
41	\$25.00	\$5.64	\$19.36	\$545.12
42	\$25.00	\$5.45	\$19.55	\$525.57
43	\$25.00	\$5.26	\$19.74	\$505.83
44	\$25.00	\$5.06	\$19.94	\$485.89
45	\$25.00	\$4.86	\$20.14	\$465.75
46	\$25.00	\$4.66	\$20.34	\$445.40
47	\$25.00	\$4.45	\$20.55	\$424.86
48	\$25.00	\$4.25	\$20.75	\$404.11
49	\$25.00	\$4.04	\$20.96	\$383.15
50	\$25.00	\$3.83	\$21.17	\$361.98
51	\$25.00	\$3.62	\$21.38	\$340.60
52	\$25.00	\$3.41	\$21.59	\$319.00
53	\$25.00	\$3.19	\$21.81	\$297.19

54	\$25.00	\$2.97	\$22.03	\$275.17
55	\$25.00	\$2.75	\$22.25	\$252.92
56	\$25.00	\$2.53	\$22.47	\$230.45
57	\$25.00	\$2.30	\$22.70	\$207.75
58	\$25.00	\$2.08	\$22.92	\$184.83
59	\$25.00	\$1.85	\$23.15	\$161.68
60	\$25.00	\$1.62	\$23.38	\$138.29
61	\$25.00	\$1.38	\$23.62	\$114.68
62	\$25.00	\$1.15	\$23.85	\$90.82
63	\$25.00	\$0.91	\$24.09	\$66.73
64	\$25.00	\$0.67	\$24.33	\$42.40
65	\$25.00	\$0.42	\$24.58	\$17.82
66	\$18.00	\$0.18	\$17.82	\$0.00

How can you avoid paying for so long and paying so much interest?

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

Minimum payment plus new purchases

Month 1: New bed \$1300

APR: 18%

Month 4: Microwave \$45

Minimum payment:

Month 5: Stroller \$150

2% of previous balance

Month 6: Clothes \$250

Interest calculated:

Previous Balance

End of month	Previous balance	New charges	Payment received	Finance charge	Principal paid	New balance
1	0	1300	0	0	0	1300
2	1300	0	26	19.50	6.50	1293.50
3	1293.50	0	25.87	19.40	6.47	1287.03
4	1287.03	45	25.74	19.31	6.43	1325.60
5	1325.60	150	26.51	19.88	6.63	1468.97
6	1468.97	250	29.38	22.03	7.34	1711.63
7	1711.63	0	34.23	25.67	8.56	1703.07

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

Same scenario, but payments raised to \$200.

End of month	Previous balance	New charges	Payment received	Finance charge	Principal paid	New balance
1	0	1300	0	0	0	1300
2	1300	0	200	19.50	180.50	1119.50
3	1119.50	0	200	16.79	183.30	936.20
4	936.20	45	200	14.03	185.97	795.23
5	795.23	150	200	11.93	188.07	757.16
6	757.16	250	200	11.35	188.64	818.52
7	818.52	0	200	12.28	187.72	630.80

Same scenario, but previous balance paid off monthly.

End of month	Previous balance	New charges	Payment received	Finance charge	Principal paid	New balance
1	0	1300	1300	0	1300	0
2	0	0	0	0	0	0
3	0	0	0	0	0	0
4	0	45	45	0	45	0
5	0	150	150	0	150	0
6	0	250	250	0	250	0
7	0	0	0	0	0	0

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

Credit Card Accountability, Responsibility, and Disclosure Act of 2009

- Card companies must give cardholders 45 days' notice of any interest rate increases.
- Creditors must print an explanation on their statements showing how long it would take to pay the total balance due and how much interest would be paid if the debtor only makes the minimum monthly payment.

Payment Due Date
04/01/2010

APR = 17% Minimum payment = 2% of balance or \$15, whichever is larger New Balance \$ **9999.00** Minimum Amount Due \$ **199.98**

Late Payment Warning: If we do not receive your Minimum Amount Due by the Payment Due Date listed above, you will have to pay a late fee of up to \$39.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges and each month you pay . . .	You will pay off the balance shown on this statement in about . . .	And you will pay an estimated total of. . .
Only the minimum amount due	28.33 years	\$23,605.35
\$300	3.83 years	\$13,627.83 (savings = \$9977.52)

If you would like information about credit counseling services, call 1-866-391-5446.

Credit card companies are now required to give information on each statement concerning minimum payments.

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Credit: Tracking Payments & Purchases

Vocabulary: Appendix A.3 Key Terms

Quiz 5.3.2

IWBAT make a table that shows the effects of making payments and additional purchases on the balance and explore various scenarios to pay off a credit card to see which is most beneficial.

Calculate how much you will end up paying if you only make minimum payments.

You owe \$1343 on your credit card. Minimum payment is 2% of the balance. The APR is 16% compounded via the average daily balance method. You can afford to pay up to \$50 per month toward the card.

If you only make the minimum payment each month, how long will it take you to pay off the balance and how much will you have paid when the balance is \$0?

If you pay the maximum you can afford each month, how much time and money will you save?

Discuss with a partner the advantages and disadvantages of using cash or a credit card.

Please use language such as this to support your claims:

- With ____ you can ____, but ____.
- One advantage of ____ is ____, because ____.
- One disadvantage of ____ is ____, because ____.

You will be responsible for telling the class one thing your partner said to you.

3 min to discuss

IWBAT

- Learn the factors which are used to compute a credit score.
- understand how to improve your credit score
- use a hypothetical credit score table to calculate a credit score.

Via

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Credit: Credit Scores

Would you loan your friend money?

More Likely To Say Yes If Your Friend . . .

Has a stable job

Has borrowed money and paid you back before

Agrees to give you a ring worth \$3000

Owns stocks worth \$20,000

More Likely To Say No If Your Friend . . .

Owes several other people money

Has borrowed money before and failed to repay you

Is unemployed

Credit: Credit Scores

The three Cs of credit

Capacity *able to pay back the loan*

Has a stable job

Is unemployed

Owes several other people money

Character

how likely they are to pay back

Has borrowed money before and failed to repay you

Has borrowed money and paid you back before

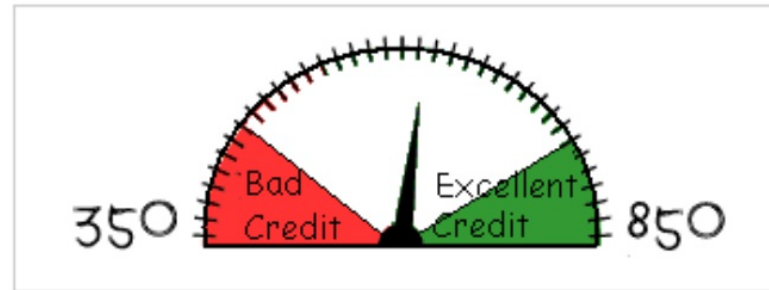
Collateral

*something that has cash value
that can be sold to cover the
loan (Secure)*

Agrees to give you a ring worth \$3000

Owens stocks worth \$20,000

Credit: Credit Scores



FICO is a company founded in 1956 that evaluates credit risk. A credit score provided by FICO is the *most used score in the world*, so people often refer to a credit score as a FICO score. (There are, however, several companies that evaluate credit scores.)

The FICO method of calculating credit scores involves five different factors. Below is a rough sketch of how each factor could play into a person's credit score. Note: FICO's actual algorithms are not public information, so the table below is hypothetical.

Factor	Percentage that it affects score	Max number of points awarded
Payment history	35%	297.5
Amount owed	30%	255
Length of credit history	15%	127.5
New credit	10%	85
Types of credit	10%	85

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

What damages credit scores?

Credit event	FICO score damage to a starting score of 780
Apply for a store credit card	-10 points
Take on a new \$30,000 car loan	-15 points
Take on a new mortgage loan of \$350,000	-15 points
Miss a payment on one account that wasn't already late	-45 to -75 points
Miss the payment on all of your accounts one month	-60 to -110 points
Max out all of your credit cards (utilization percentage is now 100%)	-50 to -100 points
File for bankruptcy	-195 to -255 points

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

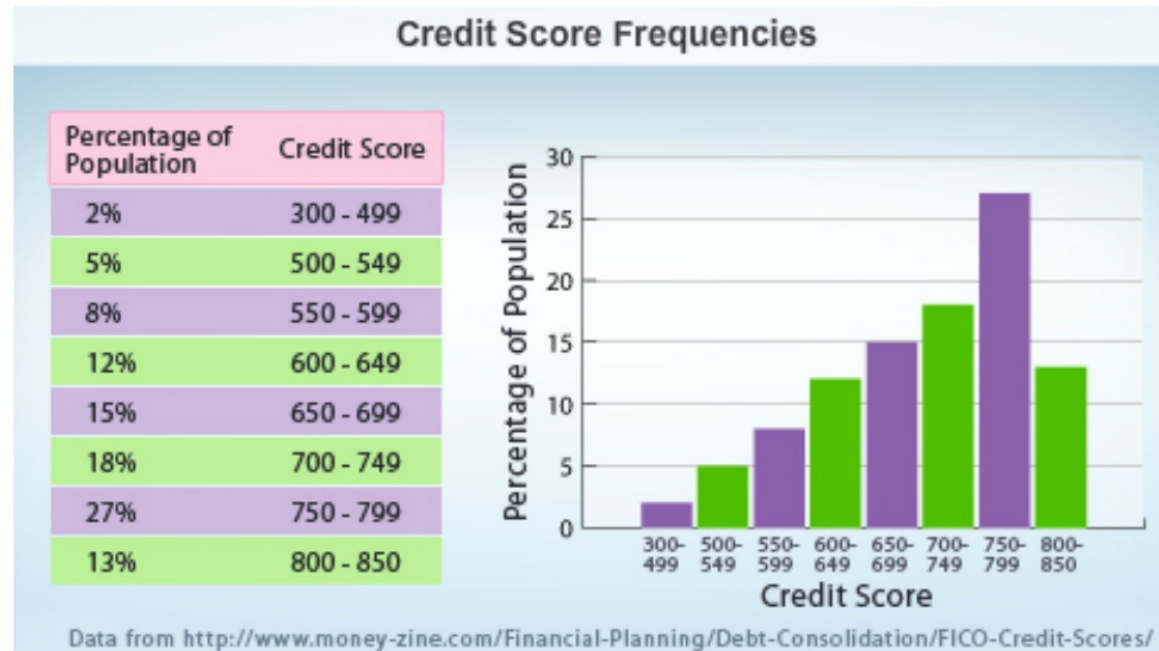
How Credit Scores Improve

- **Make all your payments on time.** This means you should never be late paying off mortgages, student loans, or credit cards.
- **Open accounts, take loans, and use credit cards** — *if you can do so responsibly*. Credit scores are based on your history of financial stability and repaying your loans. The more history there is, the better your score.
- **Avoid maxing out credit cards**, even if you are able to pay off the debt.
- **Do not apply for too many credit cards or loans** *at the same time.*

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

A **credit rating** is an estimate of a person's ability to pay off debts. How many people really have excellent credit or terrible credit?



If your FICO credit score is

750 - 850
660 - 749
620 - 659
350 - 619

Your credit rating is considered to be

Excellent
Good
Fair
Poor

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

10/12/15

This table is only a hypothetical credit-scoring table. Real credit scoring is performed by companies that use proprietary algorithms. This is why you often must pay a fee to have your credit score checked online.

Age	Under 25	25-29	30-34	35-39	40-44	45-49	50 or over
	48	20	0	4	72	88	124
Time at address	< 1 yr	1 yr	2-3 yrs	4-5 yrs	6-9 yrs	10+ yrs	
	36	0	20	0	20	48	
Age of auto	none	0-1 yrs	2 yrs	3-4 yrs	5-7 yrs	8+ yrs	
	0	48	64	52	12	0	
Car payment	None	< \$125	\$126-\$150	\$151-\$199	\$200+		
	72	24	4	16	0		
Housing costs	< \$274	\$275-\$399	\$400+	Owns clear	Lives w/ relatives		
	0	40	48	48	96		
Checking and savings accounts	Both	Checking only	Savings only	Neither			
	60	8	8	0			
Finance company reference	Yes	No					
	0	60					
Major credit cards	None	1	2 or more				
	0	20	60				
Ratio of debt income	No debts	1% - 5%	6% - 15%	16% over			
	164	64	80	0			
Declared bankruptcy	Never	In the last 10 yrs	Over 10 yrs ago				
	102	0	24				


IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

Why are credit scores important?

Credit cards

When you apply for a credit card, oftentimes the APR that is advertised will not be the APR you actually get. This is because somewhere in the small print it says the low APR depends on your credit score.

 Play

Interest rates on loans

The interest rate of a loan is often determined by your credit score. When you decide to buy a home or a car, you will probably need a loan. With a high credit score, lenders are willing to loan you money at a low rate. With a low credit score, you may find it very expensive, or even impossible, to borrow money.

 Play


Car insurance

When you purchase car insurance, the higher your credit score, the lower your rates will be.

 Play

Rental applications

If you apply to rent an apartment, landlords often check your credit score before agreeing to rent to you.

 Play

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.

Credit: Credit Scores

Mortgage rate example

FICO score	Interest rate	Monthly payment
720 – 850	5.59%	\$860
700 – 719	5.71%	\$872
675 – 699	6.25%	\$924
620 – 674	7.40%	\$1039
560 – 619	8.53%	\$1157
500 – 559	9.29%	\$1238

Vocabulary: Appendix A.3 Key Terms

Quiz 5.5.2 (optional)

IWBAT understand how to improve your credit score and use a hypothetical credit score table to calculate a credit score.